C101-03-05

AGENDA ITEM 6

DATE 04-19-07

Tempe

Minutes
City Council's Finance, Economy & Veterans' Affairs Committee
March 20, 2007

Minutes of the City Council's Finance, Economy & Veterans' Affairs Committee held on Tuesday, March 20, 2007, 3:00 p.m., in the 3rd Floor Conference Room, Tempe City Hall, 31 E. 5th Street, Tempe, Arizona.

Committee Members Present:
Vice Mayor Hut Hutson, Chair
Councilmember Mark Mitchell

City Staff Present:
Jim Bond, Principal Civil Engineer
Penny Brophy, Accounting
Tom Duensing, Dep Financial Svcs Mgr
Jerry Hart, Financial Svcs Mgr
Jon O'Connor, Dep Human Resources Mgr
Mark Richwine, Parks and Rec Mgr
Nancy Ryan, Rio Salado Mgr
Chris Salomone, Community Dev Mgr
Sam Thompson, Deputy Mgr Parks
Shawn Thomson, Street Maintenance

Guests Present:
Don Cassano, Transportation Commission
Gail Gabler. SEIU

Vice Mayor Hutson called the meeting to order at 3:00 p.m.

Agenda Item 1 – Public Appearances
None.

Agenda Item 2 – Veteran's Memorial Site Change
Don Cassano summarized the proposed site change for the veteran's memorial to the Ash Avenue bridge abutment. The site would include a mini-amphitheatre to be used for speeches

and presentations following the Veterans Day Parade, as well as for other events. The artist's work was previously approved by Council. He asked for committee direction to proceed to an IRS session.

DIRECTION: Recommendation to proceed to a future IRS agenda.

Agenda Item 3 – Cemetery Operations

Tom Duensing summarized that staff used the 2001 consultant study as a base and adjusted revenues. Based on projected revenues, staff determined what type of operation could be funded out of this enterprise operation to make the operation solvent. Staff proposed five scenarios:

1. Full debt service/2.5 FTE's
2. Full debt service/2.5 FTE's through FY 2019, 1/0 FTE (Groundskeeper) thereafter
3. Full debt service/1.0 FTE (Groundskeeper only)
4. No debt service/2.5 FTE's
5. Full debt service/1.5 FTE's (Groundskeeper & Admin Asst)

Mr. Duensing explained that the first scenario was more than baseline since it was the original staffing level. Scenarios 2 through 5 are feasible staffing levels for feasible operations. Scenario 4 shows that the enterprise would not pay any debt service. If this scenario was chosen, the funding source for the debt service would have to come from somewhere other than the enterprise revenues (most likely secondary property tax). Staff recommends Scenario 5. The revenues do pay for the incremental costs of cemetery operation, including the debt service. It's a reduction of 1 FTE within the enterprise, but it is a feasible operation.

Jerry Hart added that the intent of enterprise operations is that the full cost of operations, as well as related capital fees, are recovered through the user fees. In 2001, a plan was envisioned that phase 1 would encompass a mausoleum that would have allowed the City to generate more revenue, but increased cost has required adjustments. Phase I construction is well underway and should be completed in June with about 1800 additional burial plots added. The user revenues generated from this operation at a minimum cover the debt service cost, and to whatever extent possible, the operating costs can be covered. The debt service cost could not be covered, but 1.5 FTE's could be covered.

Mark Richwine explained that the 1.5 FTE's is comprised of one fulltime groundskeeper and .5 FTE for administrative support to handle the workload associated with selling cemetery plots. Originally, staff envisioned 2.5 FTE's for additional fulltime clerical staff associated with the proposed visitors' center. As costs escalated and since the visitors' center had no revenue associated with it, it was the first aspect eliminated.

Mr. Hart continued that scenario 5 projects a $1.5M fund balance after all the debt service has been paid off. From 2019, it would draw down that fund balance built up over the years, but it would provide the opportunity to consider additional phases anticipated in the original plan. Staff feels it is important to size the operation to ensure sufficient resources once the debt was paid off to make decisions about further expansion.

Mr. Duensing added that 4% annual increases in the rates are included in these projections. This is consistent with the original financial plan of 2001. That is an integral part of what keeps this solvent. If the committee agrees to the staffing levels, staff would ask to bring back to the committee in the future a proposed rate structure that might include a provision for annual increases.

Mr. Hart added that the operating cost will continue to increase each year, and the plot sales are the main source of revenue. Those revenues need to keep pace.

DIRECTION: Staff was directed to return to the committee next month with a comprehensive rate structure.

Agenda Item 4 – Golf Fund Performance by Course

Staff summarized that at the February 1st IRS, Council requested a breakdown of golf operations for each course. Tom Duensing presented the following information:

- Ken McDonald out-performed Rolling Hills over the last four years by approximately $140K per year. For Ken McDonald, the debt service paid over the past fifteen years will be completed as of 7/1/07. This helps Ken McDonald go from an average cash basis loss over the past four years to average net income for the next five years.
- Currently, retiree pay-as-you-go healthcare costs are allocated each year and up to June 30, 2006, it has been 50% for Rolling Hills and 50% for Ken McDonald. Of the 8 employees, 7 were Rolling Hills' retirees. The allocation basis has changed and that is a primary driver for the big swing.
- For the Rolling Hills irrigation system, the last projection was about $1.8M, but it could be approximately $2M to $2.5M now which translates into about $180K per year of debt service cost. The $330K Rolling Hills number could be about $180K worse.

Jerry Hart added that a few years ago in the CIP budget, Council approved an irrigation system replacement at Rolling Hills, but that didn't go forward. At the same time, there was a proposed renovation of the Ken McDonald clubhouse. Due to the concerns of the golf operations, that project also has not gone forward. The Ken McDonald numbers also don't include any significant future capital outlays that may be required. This forecast does not anticipate any future capital investments for either course.

Vice Mayor Hutson asked about the reduction in rounds played each year.

Mark Richwine responded that it has been somewhat stable for the first time in 5 to 8 years. On a national level, there are more golf courses leaving the industry than coming in and there are more courses per capita in Maricopa County than anywhere in the country.

Vice Mayor Hutson asked about the number of rounds in 2001 at Rolling Hills and whether they could have serviced the debt.

Mr. Richwine responded that the peak year in golf was FY 1997-98. That year the enterprise netted almost $500K, whereas it is currently operating at $80K in the red. Most of this is due to decline in play. We have lost about 20% of total rounds between both courses. For many years there was a perception that it was impossible to get tee times at both Ken McDonald and Rolling Hills because the courses were so busy. In Tempe there is also an increase in the number of golfers qualifying for senior discounts. There is a shift from a full fee paying customer to a senior adult paying customer. That's particularly prevalent at Rolling Hills.

Vice Mayor Hutson added that in 7 or 8 years when there are 5,000 to 8,000 people living in the downtown area, we could be back in the black if that course were marketed as being nearby.

Mr. Richwine responded that the course will need some capital investment. Staff has discussed the potential of extending the proposed line from the Kyrene Reclamation Plant to Town Lake. By extending the line to Rolling Hills, expenditures for water and sewer could be drastically reduced. We're spending five times what we're spending at Ken McDonald to water 50% less grass.

Mr. Hart added that the issue of concern would be that if things stay as they are, probably within a year and a half to two years, the golf fund would be out of cash. If Council's desire is to wait until we could benefit from some of the downtown development, then we need to be prepared to subsidize golf for a period of time.

Councilmember Mitchell added that this is a quality of life issue for residents. He asked if the TCVB has pushed packages that include golf. If so, this will tie into rates. Could that come back in a bond election?

Mr. Richwine responded that it could. It was removed primarily because of performance of the fund.

Mr. Hart added that since we compete so directly with the private sector, when it comes to fees, staff needs the flexibility to respond to what the private sector is doing.

Mr. Richwine added that as part of the long range financial planning presentation, it was requested that there be a reporting on the individual performance of the courses.

DIRECTION: Staff was directed to bring to IRS along with golf fees.

Agenda Item 5 – Golf Fees

Mark Richwine summarized that the last recommendation for an increase to the greens fees was in the 2004/05 winter season. The winter rates begin on November 1st each year and run through April 30th, and summer rates run from May 1st through October 31st. Over the last several years, the golf enterprise fund has lost money. Significant steps have been made on the operations side to freeze positions. We are currently operating with four less positions than authorized by Council. Capital equipment is not being replaced. The operating budget will be facing new challenges in the coming fiscal year and staff is proposing a recommendation that would bring in additional revenue. In the past when incremental increases in fees have been made, there has been a slight reduction in play resulting in a "0" net increase.

Mr. Richwine continued that Tempe's resident rates remain the lowest in the Valley and non-resident rates are comparable to the regular rates charged at both the City of Phoenix and City of Mesa courses. The City of Phoenix operates five championship golf courses and Mesa operates one and one-half. They are the only other municipalities in the market place with golf operations. Staff's recommendation is to increase Ken McDonald rates. Tempe offers the only pass program for junior golf and junior golfers at Tempe's two courses purchase an unlimited play pass for $15/ month for a Tempe resident, and $25/month for a non-resident. Whereas the proposed adjustments for junior rates would put Tempe at the high end, we do offer a package that our competitors do not provide. Most junior golf played at either course is done through our passes. Staff would propose implementation of the increases November 1, 2007.

Vice Mayor Hutson asked staff to include details of the pass program in the memo for Council.

Councilmember Mitchell asked about the Phoenix courses.

Mr. Richwine responded that Phoenix issued two RFP's and they are currently being evaluated. One RFP was to hire a consultant to evaluate their operations. Phoenix golf enterprises are losing about $1.6M per year.

Councilmember Mitchell asked about the decrease in number of rounds. A 15,000 round drop between 2000 and 2005 is significant. He felt that the number of rounds could be increased by making an investment at Ken McDonald.

Mr. Richwine responded that there are some improvements that would likely generate more play, but it would be purely speculation. The supply has been growing and has now started to slip back, but for the last seven years, the supply has grown and the market has stayed flat.

Vice Mayor Hutson added that the only way to salvage these two courses in this market is to market ourselves when the downtown area develops.

DIRECTION: Staff was directed to take this to Council at IRS, together with the golf fund performance, and to include details of the pass program in the memo for Council.

<u>**Agenda Item 6 – Procurement Ordinance Review**</u>
Jerry Hart summarized that this has been on the Finance Committee work plan for the last couple of years. Staff has investigated changes in the State's procurement rules and also looked at the model procurement code published by the American Bar Association. Staff has gone through our existing code, Section 26A-1 through 26. Most of the changes are cosmetic. As our procurement code stands right now, it is pretty much true to standard.

Mr. Hart continued that Section 26A-5(b) currently says that the financial services manager has the authority to enter into City Council approved procurements over $30K. In practice, when there is a procurement over $30K that is approved by Council, the Mayor has been the one to sign that.

Councilmember Mitchell asked about the process to check licensing, permitting, certification. There have been problems in the past.

Mr. Hart responded that the procurement ordinance does not really address that. Staff follows a set of procurement policies in administering the procurement code. Historically, it has been an "on your honor system" and when an RFP is issued, the criteria for the vendor is laid out. If a vendor responds affirmatively that they have a particular license or certification, staff hasn't actually verified whether or not the information is correct. At the time the contract is awarded by Council, staff would ascertain they have the appropriate license. He has been talking to staff about changing our procedures for that to ensure that as much of that takes place prior to the award as possible.

Councilmember Mitchell stated that it should be stated that all the approved licenses and certifications need to be submitted with the application for the RFP.

Mr. Richwine added that unless a vendor is the successful respondent, they won't outlay the money to purchase licenses they wouldn't otherwise use. Typically, we don't require the furnishing of the licenses or certificates spelled out in the contract until it has been authorized by Council. We would not move forward with an agreement if they did not furnish all the required items at that point, only as a way to make it somewhat fair to all who respond because some businesses don't have the capacity to carry those licenses unless they are going to be the likely vendor.

Mr. Hart added that staff will continue to bring the entire document forward as it is reviewed. Once the entire code has been reviewed, he will highlight any of the significant changes that will need to go to Council.

Agenda Item 7 – OPEB Update

Tom Duensing summarized that at the January meeting, staff became aware that the City of Phoenix was going through the same process and was about to go public with their changes. Based on their changes, staff came to the committee in February and proposed two options. Staff presented the two options to representatives of SEIU and the Fire Union at a meeting on March 5th. TSC and the Police Union were not present at that meeting. Staff will follow up with those groups.

He summarized that option 1 involves a monthly dollar subsidy that a retired beneficiary would receive until age 65, when that benefit would terminate. Option 2 is based on the City of Phoenix model, which would have the City set up a medical savings account (MSA) effective when the employee was hired through either retirement or termination. If the employee chooses to cease employment with the City, the MSA would go with the employee. Our benefit consultant advised that the two options are roughly equivalent.

Shawn Thomson, SEIU representative, stated that Options 1 and 2 are good, but the group hates to see any changes made. The change to 20 years would be a detriment for new hires. One alternative would be for 20 years or when the employee qualifies for medicare.

Mr. Duensing added that Option 2 seems preferable to employees. The next step would be to look at current employees. If Council chooses, for example, to establish the $175/month MSA, that would be the baseline. We would want to have the ability to reduce that if we have to, based on what changes are going to be made to current employees.

Vice Mayor Hutson added that he would hope it would be flexible. What we might agree on might not work and we might need to make changes, whether it's more or less. It has to work for both sides.

Mr. Hart added that flexibility has always existed with respect to the City's health plans. The City provides the benefits to the extent that it fiscally can.

Gail Gabler, SEIU, added that their additional proposed option would be another piece to the solution and would involve setting up an irrevocable trust. The two options are about cuts, but another thing is how the money is put away. Their group had asked what this would actually save the city long term in liability, but they haven't seen any figures on that. The options are a package, but when they are unbundled, there are different pieces to those different options. One of the pieces is investing. It doesn't make sense to make cuts without knowing what it saves. The benefits attract quality workers for Tempe. We need to look at, long term, how we can put more money away and that's something we need to look at right away. That's how the irrevocable trust might help by putting away some of the reserve fund now. That undesignated fund has lots of cash to work with.

Vice Mayor Hutson responded that all that does is lower the reserve funds which changes our bond ratings which causes interest payments to go up and it ends up costing us more money and we don't even have the reserve.

Ms. Gabler added that we need to look at the numbers to see if there are some options between the City's reserve funds or having employees for this City. We are above the 25% guideline. That's way more than other cities.

Vice Mayor Hutson responded that we have the cadillac benefits of the state but we can't afford it anymore.

Mr. Duensing added that the annual required contribution, as of June 30, 2005, is $19M per year and that assumes a 7% irrevocable trust be set up. That is $19M per year into an irrevocable trust. That would be quite a bit of a hardship for the City. Currently, the City of Phoenix has addressed this issue and staff has met with Tempe Union High School District which is also looking at changes to their program as a result of this. Each of those two entities has made significant changes and both entities didn't have close to the benefit package that Tempe has. There will have to be some drastic cuts made.

Vice Mayor Hutson suggested reconvening on March 29th at 3:00 to look at the SEIU option only.

Agenda Item 8 – Future Agenda Items

- Cemetery rates
- Procurement Ordinance

A special meeting will be on March 29th at 3:00 p.m.

Meeting adjourned at 4:15 p.m.

Prepared by: Connie Krosschell
Reviewed by: Jerry Hart

Jan Hort

Jan Hort
City Clerk